



July 16, 2010
22M:kfw:9076:9077



Arnold Schwarzenegger
Governor

Mr. Fred Slone, Manager
County of San Mateo Workforce Investment Board
400 Harbor Boulevard, Bldg. B
Belmont, CA 94002

Dear Mr. Slone:

WORKFORCE INVESTMENT ACT
FISCAL AND PROCUREMENT REVIEW
FINAL MONITORING REPORT
PROGRAM YEAR 2008-09

This is to inform you of the results of our review for Program Year (PY) 2008-09 of the County of San Mateo Workforce Investment Board's (CSMWIB) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Ms. Karen Fuller-Ware from April 13, 2009, through April 17, 2009. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, cost/resource sharing, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients, and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, contract terms and agreements, and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by CSMWIB with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2008-09.

We collected the information for this report through interviews with representatives of the CSMWIB, a review of applicable policies and procedures, and a review of documentation retained by the CSMWIB for a sample of expenditures and procurements for PY 2008-09.

We received your response to our draft report on April 28, 2010 and reviewed your comments and documentation before finalizing this report. Because your response adequately addressed finding 3 cited in the draft report, we consider the issue resolved.

Also, because your response adequately addressed findings 2 and 4 cited in the draft report, no further action is required at this time. However, these issues will remain open until we verify the implementation of your stated corrective action plan during a future on-site review. Until then, these findings are assigned Corrective Action Tracking System (CATS) numbers 90259 and 90261.

Additionally, because your response did not adequately address finding 1 cited in the draft report, we consider this finding unresolved. We requested that CSMWIB provide the Compliance Review Office (CRO) with a corrective action plan (CAP) to resolve the issue that led to the finding. Therefore, this finding will remain open and has been assigned CATS number 90258.

BACKGROUND

The CSMWIB was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2008-09, CSMWIB was allocated \$957,917 to serve 180 adult participants; \$923,833 to serve 273 youth participants; and \$1,433,967 to serve 195 dislocated worker participants.

For the quarter ending March 31, 2009, CSMWIB reported the following expenditures and enrollments for its WIA programs: \$461,791 to serve 186 adult participants; \$606,908 to serve 329 youth participants; and \$1,411,473 to serve 251 dislocated worker participants.

FISCAL REVIEW RESULTS

While we conclude that, overall, CSMWIB is meeting applicable WIA requirements concerning financial management, we noted instances of noncompliance in the areas of accruals and individual training account (ITA) policy and procedures. The findings that we identified in these areas are specified below.

FINDING 1

Requirement: 20 CFR Section 667.300(c)(3) states, in part, that reported expenditures must be on the accrual basis of accounting.

Workforce Investment Act Directive (WIAD) 06-4 states, in part, that all WIA recipients are required to use the accrual system of accounting and submit a Summary of WIA Expenditures Report

on a quarterly basis. Accrued expenditures are defined as the charges incurred and recorded, but not yet paid for, during a report period; which require the provision of funds by the grantee or subgrantee for (1) goods and other tangible property received, (2) services performed by employees, contractors, subgrantees, subcontractors, and other payees, and (3) other amounts becoming owed under programs for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments.

Observation: The CSMWIB reports accruals for contract payments, individual training accounts, and vendor invoices quarterly, but does not report quarterly salary accruals in the Job Training Automation (JTA) system. Instead, CSMWIB reports salary accruals at the end of the program year.

This issue continues to be an unresolved, repeated finding in every fiscal and Procurement Review.

Recommendation: We recommended that CSMWIB provide the Compliance Review Office (CRO) with a corrective action plan (CAP), including a timeline, to report salary accruals on a quarterly basis.

CSMWIB Response: The CSMWIB acknowledged the State's position; however, stated that based on the cash reporting requirements to the County Expense Claim (CEC) utilized by their agency to determine the cost of all employment service programs, they will not be able to concur or comply with reporting salary accruals on a quarterly basis.

State Conclusion: Based on CSMWIB's response, we cannot resolve this issue at this time. 20 CFR Section 667.300(c)(3) requires that reported expenditures must be made on the accrual basis of accounting. The regulations also state that if a recipient's accounting records are not normally kept on the accrual basis of accounting, then it must develop accrual information through an analysis of the documentation on hand. We see no conflict with the use of the federally approved CEC system to allocate WIA costs. However, as stated above, federal regulations governing WIA programs require that expenditures be reported using the accrual basis of reporting. Reporting on a cash basis does not include costs incurred but not paid by end of the quarter. As a result, CSMWIB is under-reporting on its quarterly expenditure reports. This

continues to be an unresolved, repeated finding in every Fiscal and Procurement Review.

We again recommend that CSMWIB provide CRO with a CAP, including a timeline, to report salary accruals quarterly. We also recommend that CSMWIB contact its Regional Advisor for further assistance. Until then, this issue remains open and has been assigned CATS number 90258.

FINDING 2

Requirement: 20 CFR Section 667.410(a)(1) states, in part, that it is the responsibility of each recipient to conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors in order to determine that expenditures have been made against the cost categories and within the cost limitations specified in WIA and the regulations.

WIAD04-4 states, in part, that all subrecipients of WIA funds must produce and maintain written policy and procedures at the local level to ensure the recovery of unused WIA training monies. The policy/procedure should include, but not be limited to who is responsible for the collection process of any outstanding training and/or tuition refund.

Observation: We found that CSMWIB's ITA policy lacked one of the requirements stated in WIAD04-4. Specifically, it does not specify who is responsible for the collection process of any outstanding training and/or tuition refund.

Recommendation: We recommended that CSMWIB revise its tuition and training policy to include the requirement above. In addition, we recommend that CSMWIB provide its revised policy and procedures to its service providers. Finally, we recommended that CSMWIB provide CRO documentation of its actions.

CSMWIB Response: In its response, CSMWIB stated that they acknowledge the State's recommendation to revise their tuition and training policy to include the person responsible for the collection process of any outstanding training or tuition refunds. CSMWIB also stated that they will provide a revised copy to their service providers.

State Conclusion: The CSMWIB's stated corrective action should be sufficient to resolve this issue. However, we cannot close this issue until

we verify, during a future on-site visit, CSMWIB's successful implementation of its stated corrective action. We again recommend that CSMWIB provide CRO with a copy of its revised tuition and training policy. Until then, this issue remains open and has been assigned CATS number 90259.

PROCUREMENT REVIEW RESULTS

While we conclude that, overall, CSMWIB is meeting applicable WIA requirements concerning procurement, we noted instances of noncompliance in the following areas: small purchase and contract provisions. The findings that we identified in these areas, our recommendations, and CSMWIB's proposed resolution of the findings are specified below.

FINDING 3

Requirement:

29 CFR Section 97.36 (b)(1) states, in part, that grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law. 29 CFR 97.36(f)(1) states, in part, that a cost or price analysis be performed in connection with every procurement action. A cost analysis is necessary when adequate price competition is lacking and for sole source transactions.

The CSMWIB's policy and procedures states that purchase for goods and services up to \$100,000 require a Request for Quotation (RFQ). Purchases from \$5,000 to \$25,000 require a minimum of 3 quotations. Purchases over \$25,000 up to \$100,000 require a minimum of 5 quotations.

Additionally, the policy states that the following be completed in preparation for the RFQ:

- Establish RFQ closing date and time
- Research vendors and establish vendor list
- Insert County Standard Terms & Conditions
- Print RFQ document
- Mail or fax RFQ's to perspective bidders
- Receive, time stamp, log in sheet or vendor list and file in buyers suspense file

Observation:

We found that 3 of CSMWIB's small purchase procurements, one of which was a RFQ, did not contain documentation of price quotes or cost/price analysis.

Specifically, we reviewed the following small purchases:

- Full Capacity Marketing (marketing & communications) \$20,000
- Studio eM (media services and marketing consultants) \$40,000
- Gruber & Pereira (workforce and economic consulting firm) \$44,000

The files did not contain documentation to substantiate that the purchases were competitively procured.

Recommendation: We recommended that CSMWIB provide CRO with a CAP explaining how it will ensure that, in the future, they will receive, document and maintain substantiation that an adequate number of price quotes were conducted prior to obtaining goods and services using small purchase transactions.

We further recommended that CSMWIB provide CRO with the basis for the selection of the above mentioned small purchase transactions.

CSMWIB Response: In its response, CSMWIB stated that they acknowledged the State's observation that three small purchase procurements did not contain price quotes. It also stated that through further research, the County respectfully disagrees and provided the price quotes that were obtained to procure the small purchases.

State Conclusion: We consider this finding resolved.

FINDING 4

Requirement: 29 CFR Section 97.36(i)(3) states, in part, that grantee and subgrantee contracts must contain the provision that it will be in compliance with Executive Order (EO) 11246 of September 24, 1965, entitled Equal Employment Opportunity (EEO), as amended by EO 11375 of October 13, 1967, and as supplemented in Department of Labor regulations (41 CFR chapter 60).

41 CFR Section 60-1.4 states, in part, that Government contracts except as otherwise provided, each contracting agency shall include the following equal opportunity clause contained in section.

Observation: We reviewed contracts of CSMWIB's PY 2007-08 subrecipient and found that although the contracts contained an EEO provision, that

provision does not include references to EO 11246 or 11375. These contracts exceeded \$10,000.

This issue was also observed during the PY 2006-07 and 2007-08 Fiscal and Procurement reviews.

Recommendation: We recommended that CSMWIB provide CRO with a CAP, including a timeline, to update its subrecipient contract provisions to include references to EO 11246 and 11375 for all contracts that exceed \$10,000.

CSMWIB Response: The CSMWIB stated that their current contract language requires vendors to comply with local, State and Federal regulations, and executive orders. Also that they will modify the current contract template, specifically the Employment and Training Administration WIA Program Requirements to add, "Executive Order", "Compliance" and "Non-Discrimination Clause Sections". Copies have been provided to demonstrate the changes.

State Conclusion: The CSMWIB's stated corrective action should be sufficient to resolve this issue. However, we cannot close this issue until we verify, during a future on-site visit, CSMWIB's successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 90261.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Office your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than August 21, 2010. Please submit your response to the following address:

Compliance Monitoring Section
Compliance Review Office
722 Capitol Mall, MIC 22M
P.O. Box 826880
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is CSMWIB's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program; Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain CSMWIB's responsibility.

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Ms. Jennifer Shane at (916) 654-1292.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jessie Mar".

JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Office

cc: Jose Luis Marquez, MIC 50
Doug Orlando, MIC 50
Daniel Patterson, MIC 45
Dathan O. Moore, MIC 50